TESTIMONY OF R. H. HALL, JR.

FOR

DUKE POWER COMPANY

SCPSC DOCKET NO. 97-005-E

Q. PLEASE STATE YOUR NAME, ADDRESS, AND POSITION WITH DUKE POWER COMPANY.

A. My name is R. H. Hall, Jr., my business address is 400 South Tryon Street, Charlotte, North Carolina. I am General Manager, Fuels Purchasing for Duke Power Company.

Q. STATE BRIEFLY YOUR EDUCATION, BUSINESS BACKGROUND AND PROFESSIONAL AFFILIATIONS.

A. I attended the West Virginia Institute of Technology and graduated with a BS in Engineering in 1964. During college, I worked for a coal company and also for a mining equipment company. I joined the Company as a fuel trainee in the summer of 1964, progressed through various fuel purchasing positions and was appointed to my present position in March, 1978. I am a member of the North Carolina Coal Institute and the American Society of Mining, Metallurgical and Petroleum Engineers, Inc.

Q. MR. HALL, HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes, I have testified in connection with the applications by the Company to adjust its electric rates and charges based solely on changes in the cost of fuel. My last testimony was presented in Docket No. 96-005-E.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to furnish information relating to our fuel purchasing and practices for the period April, 1996 - March, 1997. My testimony will also include a summary of our fuel purchases and fuel inventories.

Q. MR. HALL, CAN YOU PROVIDE A SUMMARY OF DUKE'S FUEL PROCUREMENT PRACTICES?

A. Yes. The Company continues to follow the same procurement practices discussed in previous testimony, and a summary of those practices is as follows:

1. Estimating Fuel Requirements. Fuel requirements are estimated annually based on input data from several departments, including Forecasting, System Planning, Nuclear Production, Fossil Production, Operating and Fuel Purchasing.

2. Inventory Requirements. Monthly and annual fuel inventory requirements for each station and the system are determined after considering the Company's purchasing and production requirements. Final review and approval are provided by Duke's Executive Committee.

3. Covering of Fuel Requirements. On a monthly and annual basis, reviews are made of existing contracts and projected consumption to determine the need for additional spot or contract supplies.

4. Qualified Suppliers. A list of qualified suppliers is maintained along with detailed historical records of their performance and capabilities as to quantity, quality, loading capacities, etc. Invitations to bid are distributed to all qualified suppliers to cover additional or future contract needs.

5. Bid Evaluation. Contracts are awarded after a complete evaluation cycle including an on-site visit to the source to determine the capabilities of the suppliers.

6. Spot Purchases. To supplement our fuel supply, entry into the spot market is made on a month-by-month basis.

7. Expediting. All orders are expedited (monitored) closely as to performance against schedule quantity, quality, and proper bills of lading, etc. This expediting data is used to prepare a monthly performance report on each supplier.

8. Quality Control. The Company samples and analyzes all coal received at each station. These analyses are monitored closely against contract specifications and serve as the basis for final price determinations. All coal is also weighed at each station to verify freight charges assessed by the railroads.

Q. YOUR TESTIMONY INCLUDES EXHIBITS. WERE THESE EXHIBITS PREPARED BY YOU OR AT YOUR DIRECTION AND UNDER YOUR SUPERVISION?

A. Yes. The exhibits were either prepared by me or at my direction and under my supervision.

Q. WHAT IS SHOWN ON HALL EXHIBIT 1?

A. Hall Exhibit 1 is a summary of certain fuel statistics for the period April, 1996 - March, 1997. This Exhibit shows the quantities consumed, quantities purchased, and the weighted average price for each fuel category. The cost for coal is further broken down to show the average mine, freight, and delivered cost per ton.

The average delivered cost per ton of coal decreased $3.17 during this test period when compared to the previous six-month period for Docket No. 96-005-E. Both the mine price and freight costs decreased $1.60 and $1.57 per ton respectively. The reduction in freight resulted from new contracts with the CSX and and the NS both of which became effective 1/1/96. The improvement in mine prices was due to replacement of expiring older contracts with market based

contracts, renegotiation of several long term contracts, and use of short term, multi-month contracts with fixed prices. Due to increased consumption, spot purchases accounted for 29% of our total purchases or 4.8 million of the 16.6 million received. Prices for spot coal showed gradual increases during this period increasing from approximately $24 per ton last spring to $25 in March of 1997. The price was influenced by increased demand within the domestic utility sector as well as increased exports.

Oil and Natural Gas prices were higher when compared to the previous six-month period. Oil averaged $0.10 more per gallon while Natural Gas was $0.64 per MCF more. Both increases resulted from higher demand, especially winter months, and general inflation.

Uranium showed a slight increase of $0.82 per pound. This was caused by continued import restrictions, transportation costs, and increases in cost of mining and processing.

Q. WHAT IS HALL EXHIBIT 2?

A. Hall Exhibit 2 shows inventories for coal, oil and uranium at the beginning and end of this reporting period.

Coal inventory showed a net reduction, however, the ending inventory was higher than any other time during this reporting period. This was caused by milder temperatures and increased purchases as we prepare for the anticipated summer demand. We anticipate increasing the stockpiles over the next two months.

Oil inventories have increased and will stay higher to provide an immediate supply for the Lincoln Turbine Station in the event natural gas is unavailable. Of the approximately 14 million gallons in inventory 8.7 million is at the Lincoln Station which could potentially burn in excess of 2 million gallons per day.

Uranium showed a significant decline. This drawdown resulted from the demand in various process stages to meet the scheduled reload batches of fuel. Inventory will increase as scheduled uranium deliveries are made.

Q. WERE THERE ANY CHANGES TO DUKE'S COAL TRANSPORTATION RATES DURING THIS PERIOD?

A. Yes. On January 1, 1996, two new transportation contracts became effective-one for all CSX deliveries and one for all NS deliveries. Each contract will terminate 12/31/97. The NS contract does not have escalation provisions, and the effective rate is a function of the volume of coal shipped.

The CSX contract includes a fixed rate of escalation. Effective 1/1/97 CSX rates increased 0.75%. We expect these rates to escalate again by the same percentage 7/1/97.

Q. WHAT DO YOU FORESEE AS TO FUEL PRICES AND AVAILABILITY IN THE NEXT SIX MONTHS?

A. Demand for natural gas and coal should remain fairly strong. Coal consumption will be dependent upon the summer temperatures. We expect the supply of all fuels to be sufficient to meet demand.

Prices should increase over the next year in line with inflation.

Q. MR. HALL, DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

HALL EXHIBIT 1

FUEL PURCHASES AND CONSUMPTION

APRIL, 1996 - MARCH, 1997

COAL	
Tons Burned	16,478,707
Tons Purchased	16,614,960
Avg. Mine Price/Ton	$26.76
Avg. Freight Price/Ton	$ 8.34
Avg. Delivered Price/Ton	$35.10
Avg. Delivered Price/10^6BTU	$1.4086
OIL	
Gallons Consumed	11,565,537
Gallons Purchased	16,094,704
Avg. Price/Gallon Purchased	$0.67
NATURAL GAS	
Mcf. Purchased	1,409,646
Avg. Price/Mcf.	$3.35
URANIUM	
Pounds Purchased	2,643,046
Avg. Price/Pound	$14.28

HALL EXHIBIT 2

FUEL INVENTORIES

	3/31/96	3/31/97
COAL (TONS)	1,514,748	1,684,583
#2 OIL (GALLONS)	9,404,869	13,961,692
URANIUM (POUNDS)	1,098,227	886,102